

ACTION MEMO

June 30, 2014

FOR: Donjette L. Gilmore

FROM: Stephanie N. Davis

SUBJECT: High Dollar Improper Payments Reports Quarter 2, Fiscal Year 2014

- Suspense: July 3, 2014.
- The Memorandum at **TAB A** to the Department of Defense Office of Inspector General serves as cover to report at **TAB B** and data at **TAB C**.
- When Quarter 2's report is posted to the Comptroller's public website, all prior report postings will be removed, leaving just the most recent report online.
- RECOMMENDATION: Sign the memo of **TAB A**.
- COORDINATION: **TAB D**.

Attachments:
As stated

Prepared by: Stephanie N. Davis, Accounting & Finance Policy, 703-602-0193

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OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUL 03 2014

COMPTROLLER

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR DEPARTMENT OF
DEFENSE PAYMENTS AND ACCOUNTING OPERATIONS

SUBJECT: High Dollar Improper Payment Report for Quarter 2, Fiscal Year 2014

Attached for your review is the Quarter 2, Fiscal Year 2014 High Dollar Improper Payment Report for the Department of Defense, assembled from data prepared by the Defense Finance and Accounting Service, U.S. Army Corps of Engineers, and Defense Health Agency. This information will be posted to the Office of the Under Secretary of Defense (Comptroller) public website within 15 days of release to you in accordance with Office of Management and Budget Circular A-123, Appendix C, Part III.

Feel free to contact Ms. Sally Beecroft if you have any questions. She can be reached at sally.c.beecroft.civ@mail.mil or (703) 602-0391.

Donjette L. Gilmore
Director, Accounting & Finance Policy

Attachments:

High Dollar Improper Payment Report Quarter 2, FY2014

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DoD Quarter 2 Fiscal Year 2014 Report on High Dollar Overpayments to Individuals and Entities

HIGH DOLLAR IMPROPER OVERPAYMENTS TO INDIVIDUALS

Defense Finance and Accounting Service (DFAS)

Military Retired and Annuitant Pay

The Quarter 2 random review of military retired and annuitants examined 300 retired accounts for \$500,000 and 300 annuitant accounts for \$200,000. Thirty overpayments were identified; however none were high dollar overpayments.

The Quarter 2 review of confirmed deceased retirees included 10,456 cases for \$19.8 million and 5,417 cases for \$4.9 million in deceased annuitants. Seventeen deceased retiree debts met the high dollar threshold for \$163,000 in total overpayments. The deceased annuitants review identified 13 high dollar overpayments for \$110,000. The majority of the high dollar overpayments were payments for more than one month after confirmed date of death due to late receipt of death certificates. To date, \$108,000 (66 percent) was recovered for Deceased Retired Pay, and \$94,000 (86 percent) was recovered for Deceased Annuitant Pay.

The primary reason for Military Retired and Annuitant overpayments is late receipt of death certificate or notification of death. Overpayment for Military Retired and Annuitant totaled \$273,000 in identified debts. For Quarter 2, Fiscal Year (FY) 2014, DFAS had an overall improper payment rate of 0.02 percent of \$13.5 billion (\$2.2 million) in total military retired and annuitant pay program payments.

Military Retired and Annuitant Pay – Prevention and Corrective Action

DFAS' control processes to prevent, identify, and reduce overpayments to deceased retirees and annuitants include a series of periodic eligibility notifications, early detection data mining efforts, and partnerships with other federal and state entities. DFAS is proactive, routinely comparing; (a) retired and annuitant payroll master file databases to Social Security Administration "deceased" records (also known as the Death Master File) and (b) records with the Office of Personnel Management deceased files. The file comparisons are also conducted against the Department of Veterans Affairs' cemetery database and individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Retirees identified as deceased in these comparisons must validate their continued eligibility, or the accounts are suspended.

HIGH DOLLAR IMPROPER OVERPAYMENTS TO ENTITIES

DFAS

DFAS' Quarter 2, FY 2014, high dollar improper commercial overpayments totaled \$69.6 million (0.095 percent) out of \$72.6 billion. There were 215 high dollar overpayments to entities totaling \$69.6 million with \$67.3 million (96.7 percent) recovered to date. The primary root causes for these overpayments were technician input errors (143 errors at \$25.6 million), progress payment under recoupment errors (29 errors at \$31.5 million), and contractor billing errors (25 errors at \$5.7 million.) DFAS' input errors include voucher examiner input errors, duplicate payment errors, and other entitlement errors. The progress payment under recoupment errors resulted in overpayments in progress payments to contractors because proper amounts were not recouped. The contractor billing errors include overbillings and billing the wrong period of performance.

Corrective Actions and Strategies

DFAS uses the Business Activity Monitoring (BAM) tool to help detect improper payments in its major entitlement systems. The BAM tool compares the current invoices received to historical files by running various types of quality assurance checks. BAM looks for anomalies in payment data to include potential duplicates, overpayments, and payments to incorrect payees. Anomalies are flagged as potential improper payments and manually reviewed prior to disbursement. DFAS analyzes improper payment data monthly to monitor BAM's effectiveness and develop new strategies to enhance detection logic.

DFAS has implemented the Do Not Pay initiative in which potential payments are matched against the Excluded Parties List, Death Master, Office of Foreign Asset Accounts, and Systems for Award Management to verify vendor eligibility prior to payment. For contractor billing errors, DFAS conducts monthly, bi-annual, and annual analysis of both improper payments and BAM prevented data to identify contractor trends. This information is provided to DFAS payment offices to conduct vendor outreach on proper billing methods and communicate the risks of improper payments.

Recovery Actions and Strategies

DFAS conducted root cause analysis for the three largest overpayments by contractor and identified the following:

- **Sikorsky Aircraft Corporation** - \$17.5 million in overpayments. DFAS has recovered the entire amount. There was supposed to be an 80 percent recoupment on two shipments totaling \$21.9 million. The recoupment was not taken resulting in a \$17.5 million overpayment (80 percent of \$21.9 million). Due to a contractual modification the recoupment was missed and went unnoticed until after disbursement. DFAS is implementing additional levels of review on high dollar complex contract financing payments to prevent recurrence.
- **Lockheed Martin Missiles and Fire Control** - \$6.7 million in multiple overpayments. DFAS recovered the entire amount. A \$4 million overpayment was caused by voucher examiner errors on multiple shipments resulting in under recoupments. DFAS is implementing additional levels of review on high dollar complex contract financing payments to help prevent recurrence. Training sessions are conducted on managing payments against complex financing contracts where various payment scenarios are covered during these sessions.
- **Bell Helicopter Textron Inc.** - \$4.7 million in overpayments. DFAS recovered the entire amount. The overpayment was the result of an under recoupment caused by a contract input error. There was a 90 percent recoupment on a \$15.1 million shipment of which, \$13.6 million should have been recouped. Only \$8.9 million was recouped due to the input error that caused a \$4.7 million overpayment. DFAS is implementing additional levels of review on high dollar complex contract financing payments to help prevent recurrence. DFAS also established a working group focused on identifying additional BAM logic that can be used to help detect improper payments on contracts that contain complex payment terms.

DFAS continues to use the Accounts Payable-Accounts Receivable handoff process to identify and collect improper payments. The process provides procedures that ensure due diligence is performed including, but not limited to Contract Debt System (CDS) input, demand letter processing, follow-up actions, and collection and transfer of the debt to the Debt Management Office. In Quarter 2, FY 2014, 96.7 percent of the overpayments were collected using these procedures.

DFAS' CDS Validation/Reconciliation process ensures proper debt recording to include proper documentation to support the debt. This process is on-going and requires all DFAS sites to review debts at 120-day intervals to ensure the debt is still outstanding and fully supported. DFAS improved the collection of erroneous payments through the re-engineering of the internal offset process with a Centralized Offset Program. The changes include identifying invoices to offset internally across DFAS sites at day 60 through 120. Debts not matched to an invoice are referred to the Department of Treasury at day 121 vice the normal 180-day requirement, accelerating Treasury's ability to recover delinquent debts by 60 days.

Root Cause Analysis of BAM prevented improper payments

DFAS identifies and prevents improper payments in five of the DoD's largest commercial payment systems; Mechanization of Contract Administration Services (MOCAS), Computer/Electronic Accommodations Program (CAPS-Windows), Integrated Accounts Payable System (IAPS), One Pay, and Enterprise Business System (EBS) through use of the BAM pre-payment tool. These systems accounted for 87 percent of DFAS supported commercial payment dollars during Quarter 2. BAM helped prevent over \$266.7 million in improper payment dollars during Quarter 2, FY 2014.

In addition to using BAM as a prevention tool, DFAS analyzes improper payments prevented by BAM monthly and bi-annually. The analysis pin-points common causes at pay office and system levels, and identifies vendor and contract payment and error trends. The results are shared with DFAS payment offices to identify areas for operational improvement and customer outreach.

DFAS is in the process of incorporating voucher examiner, entitlement, and certifier information into the BAM tool to identify reoccurring issues at employee level. When completed, the added information will be used to generate monthly reports for managers' use in identifying the need for additional training. Estimated Completion Date: Quarter 3, FY 2014.

Root Cause Analysis of Improper Payments

DFAS identifies and monitors the root cause of improper payments in CDS by researching supporting documentation and assigning code that identifies the type of improper payment and reason. Trend analysis is conducted to identify reoccurring errors at pay office, system, vendor, and contract levels. This information is used to identify potential refinements to BAM improper payment detection logic. It is also shared with the DFAS payment offices on monthly and annually to help identify areas for operational improvement.

MOCAS Operations established additional levels of review for complex contract financing payments. A team of specialists was established to monitor and review the accuracy of complex progress payments in a pre-payment environment. These reviews are being implemented as additional controls to help detect input errors and under recoupment errors leading to improper payments. DFAS established a working group aimed at identifying additional BAM logic that can be developed to help detect improper payments on complex financing contracts. The working group will focus on ways to leverage BAM capabilities against Procedures, Guidance and Information (PGI) programming that was recently implemented in MOCAS.

Statistical Sampling of Commercial Payments

DFAS developed and implemented a Commercial Pay statistical sampling and review plan to ensure compliance with IPERA and OMB Circular A-123, Appendix C. The standard operating procedures and review checklist standardize the post pay review process throughout the DFAS Accounts Payable network to ascertain accuracy of contract, vendor payments, and support the Commercial Pay entitlement system reviews.

Quarter 2, FY 2014, random review for commercial pay included 8,112 invoices for \$625.3 million total sampled dollars. The review identified 7 invoices with \$33,000 in total overpayments. One overpayment met the high dollar threshold for \$32,000 and is included in the high dollar overpayments to entities.

U.S. Army Corps of Engineers (USACE)

USACE Quarter 2, FY 2014, overall improper overpayment percentage was 0.0001 percent (\$600,000) out of a total \$4.3 billion disbursed. For Quarter 2, FY 2014, there were six entities with high dollar overpayments totaling \$600,000 and (100 percent) recovered to date. The primary root causes for these overpayments were contracting input errors and contractor billing errors.

Corrective Actions and Strategies

USACE pre-payment examination requirement is an administrative review conducted prior to disbursement. The review ensures the voucher contains the necessary documentation for lawful and proper payment. The U.S. Army Corps of Engineers Financial Management System (CEFMS) provides internal system standards that adhere to generally accepted accounting principles (GAAP), process controls, safeguards monitoring processes, and ensures requirements of the FMR are met.

USACE Finance Center uses data-mining as part of the post-payment and recovery audit processes. The USACE data mining tool uses a CEFMS application to search and identify potential errors such as duplicate, missing, or suspicious invoices, as well as specific types of reoccurring payments. The use of a data mining tool complements the prepayment safeguards already built into CEFMS. Each day the prior day disbursements are loaded into the U.S. Army Corps of Engineers Enterprise Management Information System (CEEMIS) where a reconciliation program is run. This program checks payments based on 10 potential improper payment scenarios.

USACE samples for its commercial payment reviews are taken randomly from the CEFMS check register file. This file contains all disbursements made by the USACE Finance Center (UFC). The sample size is determined using an estimate of the minimum number of commercial payments expected to be processed in a year (roughly 374,400). The 374,400 universe results in an estimated sample size of 1,537 and a sampling interval of 244. Post-payment audits are conducted monthly to identify incorrect payments and procedural weaknesses. The sampling procedure provides a 95 percent confidence level of plus or minus 2.5 percent.

Recovery Actions and Strategies

USACE conducted detailed root cause analysis on the three largest overpayments for Quarter 2 and identified the following:

- **Exelis Systems Corporation** – \$176,000 overpayment due to contractor billing incorrectly. The vendor did a duplicate billing on the same work order and an error was found during account reconciliation. The full amount of the erroneous payment was recovered.
- **Kiewit Federal Group Inc.** – \$168,000 overpayment due to contractor billing incorrectly. Multiple invoices received for the same goods and services. The full amount was recovered.
- **Facility Leaders in Architectural Engineering I** – \$154,000 overpayment due to contractor billing incorrectly. Multiple invoices were received for the same goods and services. The full amount was recovered.

USACE continues to use multiple processes for the recognition and collection of improper payments. The processes ensure proper due diligence is performed. The processes include, but are not limited to, initiating a demand letter for collection, collection and transfer of the debt to the Debt Management Office, the Treasury Offset Program, and various other follow-up actions.

USACE continues to work with their customers to improve the unsolicited refund process through improved identification and classification of the root causes of improper payments. Each of these voluntary refunds are researched to find out what caused the improper payments and determine the appropriate corrective actions taken.

Defense Health Agency (DHA)

DHA's Quarter 2, FY 2014, identified four entities with high dollar overpayments totaling \$227,341 with \$126,997 (55.9 percent) recovered to date. The primary root causes for these overpayments were incorrect pricing for medical procedures and/or equipment, cost-share/deductible miscalculated, authorization /preauthorization requirements not met, and other health insurance payment omitted or miscalculated when determining the Government's liability.

Corrective Actions and Strategies

DHA conducts contractor compliance reviews quarterly and semi-annual using a statistically valid sampling methodology to identify overpayments. The approach samples paid health care claims between \$100 and \$100,000 and a 100 percent review of all paid claims in excess of \$100,000 for the Managed Care Support, TRICARE Dual Eligible and Fiscal Intermediary Contract, and TRICARE Overseas Program purchased care contracts. In addition, DHA conducts semi-annual contractor compliance reviews for the TRICARE Pharmacy Program and Active Duty Dental Program purchased care contracts. The sampling approach emphasizes strata where the greatest expenditures have occurred in the respective programs.

DHA's compliance review process takes approximately 250 calendar-days to complete. The process involves an initial review of claims by an external claims review contractor, a rebuttal period, and a final review determination. This contractually required process must be adhered to by DHA contractors.

Recovery Actions and Strategies

TRICARE's third-party contractors are monetarily incentivized through contractual performance standards to reduce and eliminate improper payments. The fewer improper payment errors, the less money deducted from their reimbursements. Contractors are required to recover overpayments identified in retrospective contractor compliance reviews.

Department of the Navy Enterprise Resource Program (NERP)

NERP's Quarter 2, FY 2014, certified high dollar commercial overpayments to 878 separate vendors totaling \$1.2 billion. Of these overpayments, no improper payments were identified for this period.

Preventive Actions and Strategies

NERP conducts monthly compliance reviews utilizing a statistically valid sampling methodology to identify overpayments. This sampling methodology assumes the maximum sample size for annual estimates of improper payment rates at the Command level and serves as a means to collect data on sampled payments regarding the accuracy of NERP's internally-entitled contract, vendor pay, assessment of amounts, reasons for over/underpayment, recovery, and reconciliation.

NERP's testing of commercial payments in samples is based on the percentage of payments from the following 3 Navy Commands: Naval Air Systems Command (NAVAIR), Naval Sea Systems Command (NAVSEA), and Space and Naval Warfare (SPAWAR). NERP also identifies and documents the impact of the volume of other IPIA samples being tested outside of the review. Additionally, NERP conducts cost benefit of testing and reviews known error rates from past IPIA reviews.